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# **United States International Economic Policy**

**By**

**E. Anthony Wayne**

**United States Department of State**

**Assistant Secretary for Economic and Business Affairs**

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My topic today is how the Department of State advances US international economic policy goals. Economics is vital to the foreign policy of the United States, and my office, the Bureau of Economic and Business Affairs (EB), is the center of the Department of State's effort to develop and implement America's international economic policy. We work on a wide range of issues from civil aviation agreements to terrorist financing, from debt restructuring to communications policy, from trade negotiations to international petroleum reserves. We work with posts around the world, other bureaus in the Department of State, some forty US agencies, 189 foreign governments, and hundreds of businesses and non-government organizations.

In these efforts, we focus on three broad priorities:

- First, in the area of development, we do our best to ensure that poor nations participate fully in a rising tide of prosperity.
- Second, we try to assure our economic security.
- Third, we work to advance global prosperity by expanding trade and investment between nations.

## **Economic Security**

The atrocities on September 11, 2001 compelled all of us in the US government to refocus priorities. At Economic Bureau, we have made economic security a core responsibility, shifting resources and personnel accordingly. To ensure our economic security, we must focus on four tasks in the coming years.

- First, we must cut off the financing of terrorism. The United States and its partners have worked very closely to disrupt the flow of money to terrorists and to their supporters. We have led international efforts, under the auspices of the UN, to identify and block assets to nearly 250 designated terrorist individuals and groups. We have disrupted their ability to finance operations and access the funds of charities to carry out acts of violence against us and our friends. We have broadened the mandate of the Financial Action Task Force (FATF) to include terrorism.

With thirty-one members, the FATF is the world's leading international organization on combating financial crime. Alongside our allies, the United States has improved coordination of technical assistance to countries at the frontline of the war on terrorism to develop their capacity to cut off the flow of funds to terrorists. Although our work has not finished, terrorists now find it much harder to move money and assets around the world.

- Second, we must ensure stability of the international financial system and the economic stability of key allies. It is in our interest to make sure that those nations engaged in the front-line of the war against terrorism are not threatened by economic and financial instability. To that end, we worked with the Treasury Department to fulfill the President's promise to provide one billion dollars in debt reduction for Pakistan and to develop international monetary fund rescue and reform packages for Turkey, Jordan and Pakistan.

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We continue to work actively with other countries, the international financial institutions and the private sector to prevent financial crises in such front-line states and to resolve them more effectively when they occur. Promoting regional trade will also play an important role in fostering economic growth.

- Third, we must develop diversified and reliable supplies of energy. Energy remains a vital economic ingredient for the United States and other industrial democracies, and economic growth and prosperity will require expanded supplies of energy including oil and gas. A vibrant, open world economy, and a well functioning international financial system are vital factors helping us find more oil and gas supplies. These supplies must be reliable and made available at prices that permit sustained economic growth. We engage intensively with energy partners all over the world to diversify supplies, improve investment opportunities, encourage continued research into alternative sources, and assure that market forces work as transparently and efficiently as possible.

- Fourth, we must make international transportation of people and goods safe and secure. The United States is the world leader in transportation security. We have worked successfully with foreign governments and international organizations to ensure the safety of passengers and cargo. Maritime shipping is among the most international of transport industries but it is also one of the most exposed to the danger of terrorist attack.

We have taken a number of steps to protect our ports and seaways, including implementation of new national and international security requirements for ships, ports and terminals, requirements for more information about ship arrivals and cargoes, and enhanced container security measures.

## **Development**

We start with the premise that only substantial and rapidly expanding trade and investment can generate sustainable economic growth on the scale needed to lift entire nations out of misery. But foreign assistance, wisely channeled can play an important part in creating the conditions that attract trade and investment in the first place. The international community agreed to these two important premises at the Monterrey Summit on Financing for Development.

This is the context for the Millennium Challenge Account, a new concept that represents the most thoughtful and important American development initiative in the past forty years. I am delighted to report to you that Congress is in the final stages of approving this important Presidential initiative, which we project at five billion dollars by fiscal year 2006. The Millennium Challenge Account will deliver measurably effective development assistance by bringing together all the lessons we have learned about development, that includes the following:

- Economic growth is the key to development.
- No one can develop a country except its own people.
- There is no substitute for measurable results.

The MCA targets countries that govern justly, invest in the health and education of their people, and encourage economic freedom. By selecting countries whose policies encourage growth, MCA assistance will deliver much greater economic development. And, for those countries that do not initially qualify, it provides a strong incentive to adopt growth-enabling policies too, with which the US will be prepared to assist.

In the past two years, we have devoted special attention to the development of Afghanistan and Iraq. In 2001, most Afghan children were not enrolled in school, but today, 4.2 million children are in school. More than two million Afghan refugees and internally displaced persons

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have returned home in the past year. The international monetary fund estimates that economic growth was almost 30 percent in 2002-2003 and will continue at 20 percent in 2003-2004.

The United States has rehabilitated seventy-two health clinics, birth centers, and hospitals, provided funding to UNICEF to treat 700,000 cases of malaria, and vaccinated 4.26 million children against measles and polio, likely preventing some 20,000 deaths. We have surveyed all health facilities and services, supported plans to expand basic health services for 16.5 million women and children and to rebuild 550 rural health centers. We are providing basic health services to more than two million people in twenty-one provinces; ninety percent of recipients are women and children. We are providing, through CARE, one-quarter of Kabul's water supply, focusing on the poorest districts. We are rehabilitating the water systems of Kandahar and Kunduz, which will provide water to 700,000 people.

We have increased food production and reduced the number of Afghans dependent on food aid in 2002 from approximately 10 million to 6 million. We have contributed to an 82 percent increase in fall 2002 wheat yields by providing fertilizer and improved wheat seed to 113,000 farmers in 12 provinces. The resulting estimated increase in wheat production translates into an additional \$69 net income per farmer whereas average family income in similar countries is only \$100 to \$200 total per year.

The US recently committed \$1.7 billion in additional assistance for Afghanistan, money that is above and beyond the \$1.8 billion already appropriated. Much of this additional assistance will be geared toward initiatives that will have an immediate, tangible impact: improving security, building capacity within the Afghan central government, and encouraging economic growth.

The needs are still great, however. In a September 2003 report the International Monetary Fund noted that for both the operating and development budgets to be executed fully this fiscal year, and thus for the government to be able to achieve its development objectives, it will be crucial that additional pledges of donor assistance are obtained and pledged assistance materializes in a timely manner. The Fund report goes on to warn that the experience of post-conflict countries shows that assistance typically starts to decline after a few years, just at the moment when the recipient country's capacity to absorb aid and use it effectively is increasing. Afghanistan's reconstruction effort has only just begun and will continue to require sizable assistance for several years to come.

In Iraq, we are also seeing progress. It is natural that people are concerned about the security situation there, but what does not grab the headlines is the news about the daily improvements being made in the lives of the people. In October 2003, we successfully concluded a donors' conference in Madrid, attended by seventy-three countries and twenty international organizations where more than \$33 billion dollars of assistance to Iraq was pledged over the next four years. This huge pledge includes the \$18.6 billion in grants Congress just approved in response to the President's request for reconstruction assistance, which will allow us to continue our leadership role.

The Coalition Provisional Authority, working with the Iraqi Governing Council and ministries, is restoring infrastructure and palpably improving the lives of the Iraqi people, and Iraqi interim Finance Minister Kamel al-Gailani has unveiled trade, investment, and tax reforms that make Iraq one of the most liberalized economies in the region. The reforms are an important step in transforming the centrally planned Iraqi economy into a market-based economy and in stimulating private business activity, which will create jobs and the prosperity essential for Iraq's economic recovery after decades of central planning, economic mismanagement, war and sanctions.

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Expanding trade and investment is our third economic policy priority. Trade policy and development policy are mutually reinforcing. Helping developing countries to participate fully in the world trade organization and the global economy promotes development, and widens the circle of growth and prosperity. According to the World Bank, free trade in all goods, including agriculture, would result in a gain in world income of some \$830 billion; 65 percent of which would flow to developing countries, helping an estimated 300 million people escape from poverty. In contrast, developing countries receive approximately \$50 billion a year in direct assistance from donor governments.

As the statistics above indicate, developing countries can best help themselves through increased trade liberalization. We continue to push ahead on all fronts to liberalize trade globally, regionally and bilaterally. Unfortunately, the Cancun World Trade Organization ministerial brought movement on the global front to a halt, at least temporarily. It is still too early to tell what Cancun means for the long run. In the meantime, though, the United States is not sitting still.

We are wrapping up negotiations for free-trade agreements with an assortment of countries with which we collectively exchanged \$50 billion worth of products last year. We expect to begin free trade agreements talks soon with additional partners representing another \$47 billion in two-way trade. These free trade agreement talk partners, together with Singapore and Chile, with whom we recently signed free trade agreements that will enter into force next year, collectively bought a greater value of US goods last year than Japan, and more than any other single trading partner except for our NAFTA partners: Canada and Mexico. Collectively they would have been our fifth largest trading partner last year in terms of two-way trade. We also continue to work toward concluding a Free Trade Area of the Americas, which will create a tariff-free zone from the Bering Strait to the Strait of Magellan. Cancun raised serious questions about whether the World Trade Organization, at this point in time, can bring together the shared purpose and commitment to flexibility that is necessary to achieve results. It is now hard to imagine that the negotiations will be completed by the end of 2004 as called for in the Doha Declaration. We may have to adjust the levels of ambition to which we originally aspired. Nonetheless, we will not turn our back on the multilateral approach to trade liberalization.

The Doha Development Round is a once-in-a-generation opportunity to lower trade barriers and expand economic opportunities throughout the world. Our aim in these negotiations is straight-forward we want to open global markets across the board and expand the virtuous circle of trade and economic growth for developing and developed economies alike. Many developing countries that aligned themselves with Brazil and India at Cancun now appear to be reassessing whether the tactics and positions they adopted there serve their best interests. Several countries have officially dropped out of the group. Thailand, which followed the G-21 line at Cancun, has now agreed to enter into free trade agreement talks with us.

There are also indications that Brazil, India, China and South Africa are looking to each other for increased trade opportunities. This is good. They will quickly see the benefits of lowering their own trade barriers and not just demanding that developed countries lower theirs.

As more countries come to adopt more flexible positions, we hope to eventually be able to restart the Doha talks based on the last text on the table at Cancun. The Asia Pacific Economic Cooperation economies expressed that desire last month in Bangkok. We hope the new European Commission, as well as major developing countries such as Brazil and India, will also come to accept this as the right starting point.